

Marathon Area Fire Authority

Lapeer County, Michigan

Audited Financial Report
December 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Marathon Area Fire Authority	County Lapeer County
Fiscal Year End December 31, 2005	Opinion Date April 25, 2006	Date Audit Report Submitted to State July 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.		Telephone Number 989-635-3113	
Street Address 3531 Main Street		City Marlette	State MI
Authorized CPA Signature 		Printed Name Lehn King	Zip 48453
		License Number A248781	

Marathon Area Fire Authority
Annual Financial Report
For The Fiscal Year Ended December 31, 2005

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Members of the Township Board
Marathon Area Fire Authority
Lapeer County, Michigan

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marathon Area Fire Authority, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Marathon Area Fire Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marathon Area Fire Authority, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marathon Area Fire Authority, Michigan as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marathon Area Fire Authority, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Marathon Area Fire Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

Lehn King

Lehn L. King
Certified Public Accountant

April 25, 2006

Marathon Area Fire Authority

Columbiaville, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER

As management of the Marathon Area Fire Authority ("Authority"), Marathon Township, Lapeer County, Columbiaville, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented herein in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's total net assets increased \$102,321, approximately 18%, over the course of the year. This increase was the result of actual operations for the year having excess revenues over expenditures.
- Net Operating Revenues (excluding grant income) increased \$11,304 over the prior fiscal year.
- Total Operating Expense (excluding grant expenditures) increased \$9,279 from the prior fiscal year.
- Grant Revenues were \$96,237 more than the prior fiscal year.
- Grant Expenditures were \$96,237 more than the prior fiscal year.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: (1) government-wide financial statements, and (2) notes to the financial statements. It also contains other supplemental information to provide a greater detail of the data presented in the basic financial statements.

Government –wide Financial Statements

Government-wide financial statements provide information about the activities of the Authority, presenting a broad long-term overview of the Authority's finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Balance Sheet and the Statement of Net Assets and the Statement of Revenues, Expenditures and Changes in Fund Balances report the governmental activities for the Authority, which encompasses all of the Authority's services.

Marathon Area Fire Authority

Columbiaville, Michigan

Reporting the Authority's Most Significant Funds- Fund Financial Statements

The Authority's fund financial statements provide detailed information about the most significant funds, not the Authority's as a whole.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law.

These fund financial statements present a short-term view; they tell us how the Authority's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

The Authority operates using a single fund type:

- (1) Enterprise Funds – The Authority maintains one type of enterprise funds to account for its services. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the Financial Statements

The notes that follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Authority as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position.

The following table shows, in a condensed format, the net assets as of December 31, 2005.

Assets	
Current Assets	\$ 92,311
Capital Assets - Net of Depreciation	590,528
Total Assets	682,839
Liabilities	
Current Liabilities	12,767
Long-term Liabilities	-
Total Liabilities	12,767
Net Assets	
Invested in Capital Assets	590,528
Reserved	-
Unrestricted	79,564
Total Net Assets	\$ 670,092

The Authority's total net assets reported in the Statement of Net Assets increased \$102,321 over the prior fiscal year due to revenues exceeding expenditures from operations.

Marathon Area Fire Authority

Columbiaville, Michigan

The following table shows the changes of the net assets during the fiscal year ending December 31, 2005.

Revenue	
Special Assessments - Marathon Township	\$ 142,987
Standby Fees - Oregon Township	20,000
Fire Run Charges	17,102
Total Revenues	<u>180,089</u>
Expenses	
Operating Expenses	<u>162,800</u>
Income From Operations	17,289
Non-operating Revenues (Expenses)	
Grant Income	137,840
Grant Expenditures	(137,840)
Interest Income	1,810
Non-operating Income	<u>1,810</u>
Change in Net Assets	<u><u>\$ 19,099</u></u>

The Authority's operating revenues, shown in the Statement of Revenues, Expenditures and changes in Fund Balances increased \$11,304 over the prior fiscal year. This increase is due to strong monitoring of expenses so as not to expend more than was anticipated to be received by the Authority.

The operating expenses of the Authority increased by \$9,279 over the prior fiscal year. This increase is due in part because of increase in wages, vehicle operating costs, utilities and improvements and repairs to the Columbiaville station. Some of these increases were offset by decreases in capital outlay.

The Authority's Funds

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority completed this year with a fund balance of \$79,564 an increase of \$19,099 from last year.

The Enterprise Fund accounts for all of the Authority's services.

Marathon Area Fire Authority

Columbiaville, Michigan

Capital Assets and Debt Administration

Capital Assets

At December 31, 2005, the Authority had \$590,528 invested in a broad range of capital assets, including buildings and equipment. This amount represents a net decrease of \$83,222.

Building Improvements	\$ 32,790
Machinery and Equipment	852,464
Office Equipment	<u>3,388</u>
Total Capital Assets	888,642
Less Accumulated Depreciation	<u>298,114</u>
Net Capital Assets	<u><u>\$ 590,528</u></u>

Major capital asset transactions this year include the purchase of new and replacement safety equipment.

Debt Administration

As disclosed in the notes of the financial statements, the Authority has no long-term debt.

General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year.

Economic Factors and Next Year's Budget

We anticipate a very small increase in special assessment revenue and the balance of the revenue from standby fees and calls to be about the same. Next year's budget anticipates an increase in income of less than \$10,000. The Authority's board anticipates expenses will rise with the cost of wages, fuel, and insurance being the hardest costs to control. The fiscal 2006 year will be a very tight year financially.

Contacting the Authority's Management

This financial report is intended to provide the citizens that we serve with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority by calling the Marathon Township Hall and the Authority's Chairman, Kim Brown or the Treasurer, Sandi Glesenkamp.

Marathon Area Fire Authority

Statement of Net Assets (Deficit)

December 31, 2005

	Primary Government Governmental Activities
<u>Assets</u>	
Cash & Cash Equivalents	\$ 92,331.12
Capital Assets (Net of Accumulated Depreciation)	<u>590,528.00</u>
Total Assets	682,859.12
<u>Liabilities</u>	
Accounts Payable	\$ 2,788.87
Accrued Wages	<u>9,978.40</u>
<u>Total Liabilities</u>	<u>12,767.27</u>
Net Assets (Deficit)	
Invested in Capital Assets - Net of Related Debt	590,528.00
Unrestricted	<u>79,563.85</u>
<u>Total Net Assets (Deficit)</u>	<u><u>\$ 670,091.85</u></u>

The notes are an integral part of the statements.

Marathon Area Fire Authority

Statement of Activities
For the Year Ended December 31, 2005

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for	Operating	Capital	Primary Government
	Expenses	Services	Grants & Contributions	Grants & Contributions	Governmental Activities
<u>Functions/Programs</u>					
Primary Government:					
Governmental Activities:					
Public Safety	\$ 217,418.26	\$ 32,750.00	\$ -	\$ 137,840.00	\$ (46,828.26)
Interest on Long-Term Debt	-	-	-	-	-
<u>Total Governmental Activities</u>	<u>\$ 217,418.26</u>	<u>\$ 32,750.00</u>	<u>\$ -</u>	<u>\$ 137,840.00</u>	<u>(46,828.26)</u>
General Revenues:					
Special Assessments					\$ 142,987.25
Interest					1,810.30
Other Revenues					4,352.00
Total General Revenues, Special Items & Transfers					<u>149,149.55</u>
Change in Net Assets					102,321.29
Net Assets (Deficit) - Beginning of Year					<u>567,770.56</u>
Net Assets (Deficit) - End of Year					<u>\$ 670,091.85</u>

The notes are an integral part of the statements.

Marathon Area Fire Authority

Governmental Funds

Balance Sheet

December 31, 2005

	Fire Authority Fund	Totals Governmental Funds
<u>Assets</u>		
Cash & Certificates of Deposit	\$ 92,331.12	\$ 92,331.12
<u>Total Assets</u>	<u>\$ 92,331.12</u>	<u>\$ 92,331.12</u>
<u>Liabilities & Fund Equity</u>		
<u>Liabilities</u>		
Accounts Payable	\$ 2,788.87	\$ 2,788.87
Accrued Wages	9,978.40	9,978.40
<u>Total Liabilities</u>	<u>12,767.27</u>	<u>12,767.27</u>
<u>Fund Equity</u>		
Fund Balance		
- Unreserved & Undesignated	79,563.85	79,563.85
<u>Total Fund Balances</u>	<u>79,563.85</u>	<u>79,563.85</u>
<u>Total Liabilities & Fund Equity</u>	<u>\$ 92,331.12</u>	<u>\$ 92,331.12</u>

The notes are an integral part of the statements.

Marathon Area Fire Authority

Governmental Funds

Reconciliation of Fund Balances to the
Statement of Net Assets (Deficit)

For The Year Ended December 31, 2005

Total Fund Balances for Governmental Funds	\$ 79,563.85
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Amounts reported for Governmental Activities in the Statement of
Net Assets (Deficit) are different because:

Capital Assets used in Governmental Activities are not Financial Resources and are not reported in the Funds	<u>590,528.00</u>
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Net Assets of Governmental Activities	<u><u>\$ 670,091.85</u></u>
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The notes are an integral part of the statements.

Marathon Area Fire Authority
Governmental Funds
Statement of Revenues, Expenditures, And Changes
in Fund Balances
For The Year Ended December 31, 2005

	Fire Authority Fund	Totals Governmental Funds
<u>Revenues</u>		
Special Assessments	\$ 142,987.25	\$ 142,987.25
Standby Fees	20,000.00	20,000.00
Charges for Fire Runs	12,750.00	12,750.00
Interest Earnings	1,810.30	1,810.30
Grant Proceeds	137,840.00	137,840.00
Miscellaneous	4,352.00	4,352.00
<u>Total Revenues</u>	<u>319,739.55</u>	<u>319,739.55</u>
<u>Expenditures</u>		
Public Safety	154,176.26	154,176.26
Capital Outlay	146,464.00	146,464.00
Debt Service	-	-
<u>Total Expenditures</u>	<u>300,640.26</u>	<u>300,640.26</u>
Excess of Revenues Over (Under) Expenditures	19,099.29	19,099.29
<u>Other Financing Sources (Uses)</u>		
Operating Transfers In (Out)	-	-
Net Change in Fund Balances	19,099.29	19,099.29
<u>Fund Balance - Beginning of Year</u>	<u>60,464.56</u>	<u>60,464.56</u>
<u>Fund Balance - End of Year</u>	<u>\$ 79,563.85</u>	<u>\$ 79,563.85</u>

The notes are an integral part of the statements.

Marathon Area Fire Authority

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 19,099.29
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Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental Funds report Capital Outlays as Expenditures; in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation	146,464.00
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Depreciation is an Expenditure for the Statement of Activities, but is not reported in the Governmental Funds	<u>(63,242.00)</u>
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Net Assets of Governmental Activities	<u><u>\$ 102,321.29</u></u>
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Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

The accounting methods and procedures adopted by the Fire Authority of Marathon Area Fire Authority, Lapeer County, Michigan, conform to generally accepted accounting principles as applied to executive entities. The following notes to the financial statements are an integral part of the Fire Authority's Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Marathon Area Fire Authority was created in November of 1993 to provide fire protection to the residents of Marathon Township, the Village of Columbiaville, and the Village of Otter Lake. The agreement was adopted pursuant to authority granted the township under P.A. 7 of 1967, known as the Urban Cooperation Act of 1967.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Marathon Area Fire Authority is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Marathon Area Fire Authority.

Component Units - In accordance with generally accepted accounting principles, there are no component units of Government required to be included in the Financial Reporting Entity either as blended component units or discretely presented component units.

Government-wide and Fund Statements Fund

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Fire Authority (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and Fiduciary Funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Fire Authority reports the following major governmental funds:

Fire Authority Fund – This fund accounts for resources devoted to financing the general services that the Fire Authority performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Fire Authority are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Fire Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Cash - The Fire Authority does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Fire Authority's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Fire Authority to hold such investments until they mature.

Vacation, Sick Leave, & Other Compensated Absences - The Fire Authority does not have any contracts or agreements with its employees or elected officials which require the payment of compensation during absence from duty nor do any such benefits vest to the right of the employee or elected official.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Government-wide and Fund Financial Statements.

Capital Assets - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Fire Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings & Building Improvements	35 to 40 years
Machinery & Equipment	3 to 20 years

Long-Term Obligations - In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Changes

GASB Statement No. 34 – Effective January 1, 2003, the Fire Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Fire Authority's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Fire Authority's overall financial position and results of operations has been included.
- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Fire Authority's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Fire Authority. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

2. Stewardship, Compliance, and Accountability

Budgetary Information

The Fire Authority is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Prior to January 1, the Fire Authority Chief Administrative Officer submits to the Fire Authority Board a proposed operating budget for the fiscal year commencing January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted.
4. The budget is used by the Fire Authority Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level.
5. Budget amounts are as originally adopted, and as amended by the Fire Authority Board.

In the body of the financial statements, the Fire Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget was adopted to the department level. Budgets for these funds are shown in the supplemental schedules to this statement.

During the year ended December 31, 2005, the Fire Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Fire Authority			
Utilities	12,000	13,570	(1,570)

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

3. Cash and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Total Primary Government
Cash & Cash Equivalents	\$ 92,331	\$ 92,331

The Fire Authority's deposits are in accordance with statutory authority. As of December 31, 2005, the balance sheet carrying amount of cash deposits was \$92,331. The bank balance as of December 31, 2005, was \$92,331, of which \$92,331 was covered by FDIC insurance.

All cash deposits and investments of the Fire Authority are held by the Fire Authority in the Fire Authority's name.

The GASB Statement 3 risk disclosures for the Local Unit's investments are as follows:

Investment Type	(1)	(2)	(3)	Carrying Amount	Market Value
Risk Categorized		NONE			
Operating Funds					
US Treasury Bonds					
Investment in Deferred					
Compensation Plans					
Total Risk-Categorized					
Investments					

The cash and investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1	Insured or registered, or securities held by the Fire Authority or its agent in the Fire Authority's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Fire Authority's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Fire Authority's name.

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

4. Interfund Receivables, Payables, & Transfers

There was no interfund activity.

5. Capital Assets

Capital Assets activity of the Fire Authority's governmental activities (and business-type) was as follows:

	Balance January 1, 2005	Additions	Disposals & Adjustments	Balance December 31, 2005
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Improvements	\$ 32,790	\$ 0	\$ 0	\$ 32,790
Machinery & Equipment	706,000	146,464	0	852,464
Office Equipment	3,388	0	0	3,388
Total Capital Assets being Depreciated	742,178	146,464	0	888,642
Accumulated Depreciation:				
Buildings & Improvements	1,230	820	0	2,050
Machinery & Equipment	230,819	61,857	0	292,676
Office Equipment	2,823	565	0	3,388
Total Accumulated Depreciation	234,872	63,242	0	298,114
Net Capital Assets	\$ 507,306	\$ 83,222	\$ 0	\$ 590,528

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 63,242
Total Governmental Activities	<u>\$ 63,242</u>

6. Long -Term Debt

The Fire Authority has no Long-Term Debt

7. Deficit Fund Balance or Retained Earnings Balances of Individual Funds

None

8. Post Employment Benefits

The Fire Authority does not provide any post employment benefits.

Marathon Area Fire Authority

Notes to the Financial Statements
For The Year Ended December 31, 2005

9. Risk Management

The Fire Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees. The Fire Authority has purchased commercial insurance for the various risks of loss stated above.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage's obtained through commercial insurance during the past year.

10. Leases of Fire Halls and Equipment

The Fire Authority has entered into a lease agreement with the Village of Columbiaville whereby the Fire Authority has leased the land and building comprising the Village of Columbiaville fire hall and all active fire trucks, equipment, machinery, apparatus, uniforms, clothing, furnishings and personal property of the Columbiaville Fire Department. The lease expires on December 31, 2019 and calls for an annual lease payment of one (\$1.00) dollar.

The Fire Authority has also entered into a lease agreement with the Village of Otter Lake whereby the Fire Authority has leased the land and building comprising the Village of Otter Lake fire hall and all fire trucks, equipment, machinery, apparatus, uniforms, clothing, furnishings and personal property of the Village of Otter Lake Fire Department. The lease expires on December 31, 2019 and calls for an annual lease payment of one thousand nine hundred and one (\$1,901.00) dollars for each of the first ten years and an annual lease payment of one (\$1.00) dollar thereafter.

Required Supplemental Information

Marathon Area Fire Authority

Required Supplemental Information
Budgetary Comparison Schedule
Fire Authority Fund
For The Year Ended December 31, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<u>Revenues</u>				
Special Assessments	\$ 138,000.00	\$ 142,500.00	\$ 142,987.25	\$ 487.25
Standby Fees	20,000.00	20,000.00	20,000.00	-
Charges for Fire Runs	15,000.00	15,100.00	12,750.00	(2,350.00)
Interest Earnings	200.00	750.00	1,810.30	1,060.30
Grant Proceeds	-	137,840.00	137,840.00	-
Miscellaneous	-	1,500.00	4,352.00	2,852.00
<u>Total Revenues</u>	<u>173,200.00</u>	<u>317,690.00</u>	<u>319,739.55</u>	<u>2,049.55</u>
<u>Expenditures</u>				
Fire Protection:				
Wages	58,564.00	80,800.00	73,146.24	7,653.76
Payroll Taxes	4,342.00	6,045.00	5,448.86	596.14
Building & Equipment Leases	2.00	2.00	2.00	-
Office Supplies	1,200.00	500.00	107.08	392.92
Vehicle Expense	7,500.00	5,000.00	3,452.64	1,547.36
Utilities	10,000.00	12,000.00	13,569.67	(1,569.67)
Insurance	27,500.00	28,500.00	25,945.10	2,554.90
Training	2,000.00	2,000.00	1,167.30	832.70
Professional Fees	2,000.00	1,300.00	1,281.25	18.75
Equipment Repairs & Supplies	33,000.00	20,700.00	18,183.02	2,516.98
Repairs & Maintenance - Buildings	12,000.00	9,000.00	9,954.38	(954.38)
Safety Promotion	800.00	500.00	433.50	66.50
Physicals	1,000.00	500.00	173.69	326.31
Dues & Subscriptions	1,000.00	1,100.00	1,036.00	64.00
Miscellaneous	1,292.00	903.00	275.53	627.47
Capital Outlay	11,000.00	148,840.00	146,464.00	2,376.00
Debt Service	-	-	-	-
<u>Total Expenditures</u>	<u>173,200.00</u>	<u>317,690.00</u>	<u>300,640.26</u>	<u>17,049.74</u>
<u>Excess Revenues Over (under) Expenditures</u>	-	-	19,099.29	19,099.29
<u>Fund Balance - Beginning of Year</u>	-	-	60,464.56	60,464.56
<u>Fund Balance - End of Year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,563.85</u>	<u>\$ 79,563.85</u>

The notes are an integral part of the statements.